

AUDUBON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Audubon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education  
(Before September 2005 Election)**

Shannon Nelsen	President	2005
Douglas Olsen	Vice President	2007
Sarah Christensen	Board Member	2005
Tim Andersen	Board Member	2006
Carla Gust	Board Member	2006

**Board of Education  
(After September 2005 Election)**

Douglas Olsen	President	2007
Tim Andersen	Vice President	2006
Sarah Christensen	Board Member	2008
Doug Olson	Board Member	2008
Carla Gust	Board Member	2006

**School Officials**

Ron Dobson	Superintendent	2006
John Roberts	District Secretary/Treasurer	2006
Natalie Lange	Business Manager	2006
Rick Engel	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Audubon Community School District, Audubon, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Audubon Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2006 on our consideration of the Audubon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Audubon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 27, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Audubon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,172,236 in fiscal 2005 to \$5,231,877 in fiscal 2006, while General Fund expenditures increased from \$4,935,118 in fiscal 2005 to \$5,233,677 in fiscal 2006. This resulted in an decrease in the District's General Fund balance from \$560,358 in fiscal 2005 to a balance of \$558,558 in fiscal 2006, a decrease of less than 1% from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax revenue in fiscal 2006. The increase in expenditures is attributable to increases in expenditures in each functional area within the instruction expenses.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Audubon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Audubon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Audubon Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Audubon Community School District Annual Financial Report***

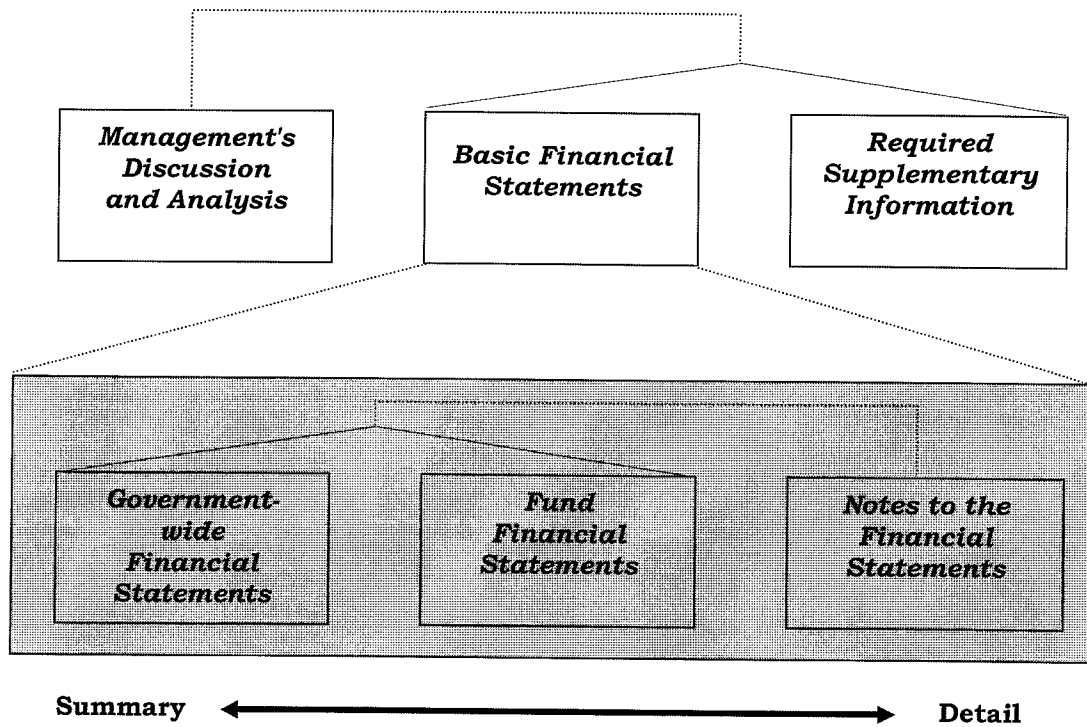


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust Funds.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 8,363,238	3,884,958	72,433	51,475	8,435,671	3,936,433	114.3%
Capital assets	3,594,421	2,772,448	54,655	63,525	3,649,076	2,835,973	28.7%
Total assets	11,957,659	6,657,406	127,088	115,000	12,084,747	6,772,406	78.4%
Long-term obligations	4,859,786	5,897	0	0	4,859,786	5,897	82311.2%
Other liabilities	2,656,015	2,533,036	1,819	1,609	2,657,834	2,534,645	4.9%
Total liabilities	7,515,801	2,538,933	1,819	1,609	7,517,620	2,540,542	195.9%
Net assets:							
Invested in capital assets, net of related debt	3,363,950	2,772,448	54,655	63,525	3,418,605	2,835,973	20.5%
Restricted	553,109	866,110	0	0	553,109	866,110	-36.1%
Unrestricted	524,799	479,915	70,614	49,866	595,413	529,781	12.4%
Total net assets	\$ 4,441,858	4,118,473	125,269	113,391	4,567,127	4,231,864	7.9%

The District's combined net assets increased by 7.9%, or \$335,263 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$313,001 or 36.1% under the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$65,632, or 12.4%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 498,376	468,203	183,207	190,660	681,583	658,863	3.4%
Operating grants and contributions and restricted interest	582,990	663,385	108,745	103,484	691,735	766,869	-9.8%
Capital grants and contributions and restricted interest	25,000	10,000	0	0	25,000	10,000	150.0%
General revenues:							
Property tax	2,039,359	1,968,122	0	0	2,039,359	1,968,122	3.6%
Local option sales and service tax	301,865	313,844	0	0	301,865	313,844	-3.8%
Unrestricted state grants	2,427,977	2,501,869	0	0	2,427,977	2,501,869	-3.0%
Other	424,711	31,555	2,014	1,015	426,725	32,570	1210.2%
Total revenues	6,300,278	5,956,978	293,966	295,159	6,594,244	6,252,137	5.5%
Program expenses:							
Governmental activities:							
Instructional	3,626,310	3,306,658	0	0	3,626,310	3,306,658	9.7%
Support services	1,752,827	1,870,020	0	0	1,752,827	1,870,020	-6.3%
Non-instructional programs	0	0	282,088	299,200	282,088	299,200	-5.7%
Other expenditures	597,756	378,126	0	0	597,756	378,126	58.1%
Total expenses	5,976,893	5,554,804	282,088	299,200	6,258,981	5,854,004	6.9%
Change in net assets	323,385	402,174	11,878	(4,041)	335,263	398,133	-15.8%
Net assets beginning of year	4,118,473	3,716,299	113,391	117,432	4,231,864	3,833,731	10.4%
Net assets end of year	\$ 4,441,858	4,118,473	125,269	113,391	4,567,127	4,231,864	7.9%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$6,300,278 and expenses were \$5,976,893.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,626,310	2,733,024
Support services	1,752,827	1,752,827
Other expenditures	597,756	384,676
Totals	<u>\$ 5,976,893</u>	<u>4,870,527</u>

- The cost financed by users of the District's programs was \$498,376.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$607,990.
- The net cost of governmental activities was financed with \$2,039,359 in property tax, \$301,865 in local option sales and service tax, \$2,427,977 in unrestricted state grants and \$270,784 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$293,966 and expenses were \$282,088. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Audubon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$5,580,263, above last year's ending fund balances of \$1,215,462. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the issuance of general obligation bonds in the capital projects fund.

### **Governmental Fund Highlights**

- The District's General Fund decreasing financial position from \$560,358 to \$558,558 is the product of many factors:
  - Increase in local taxes and federal grants during the year resulted in an increase in revenues.
  - The increase in expenditures was greater than the increase in revenues resulting in a net decrease of \$1,800.
- The Management Fund balance decreased from \$173,117 in fiscal 2005 to \$103,223 in fiscal 2006. This decrease is due to the Management fund not receiving revenues in local tax in the 2006 fiscal year.

- The Physical Plant and Equipment Levy Fund balance increased from \$101,070 in fiscal 2005 to \$211,598 in fiscal 2006. This increase is due mostly in part to an extraordinary revenue from fire damage revenue.
- The Capital Projects Fund balance increased from \$305,691 in fiscal 2005 to \$4,642,340 in fiscal 2006. The increase is from the issuance of general obligation bonds.

### Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$113,391 at June 30, 2005 to \$125,269 at June 30, 2006, representing an increase of 10.5%. This increase was due in part to a decrease in operating expenditures and an increase in federal source revenues.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$12,102 more than budgeted revenues, a variance of .2%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$3,649,076, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$830,526.

The original cost of the District's capital assets was \$11.4 million. Governmental funds account for \$11.2 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress was started in the 2006 fiscal year and totaled \$858,964 at June 30, 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 3,200	3,200	0	0	3,200	3,200	0.00%
Buildings	1,656,488	1,521,280	0	0	1,656,488	1,521,280	8.89%
Land improvements	431,849	451,215	0	0	431,849	451,215	-4.29%
Machinery and equipment	643,920	796,753	54,655	63,525	698,575	860,278	-18.80%
Construction in progress	858,964	0	0	0	858,964	0	100.00%
Total	\$ 3,594,421	2,772,448	54,655	63,525	3,649,076	2,835,973	28.67%

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## Long-Term Debt

At June 30, 2006, the District had \$4,859,786 in other long-term debt outstanding. This represents a substantial increase from the prior year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Compensated absences payable from the General Fund of \$4,786 at June 30, 2006.

The District had outstanding general obligation bonds of \$4,855,000 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General Obligation Bonds	\$ 4,855,000	0	100.0%
Compensated absences	4,786	5,897	-18.8%
Total	<u>\$ 4,859,786</u>	<u>5,897</u>	<u>82311.2%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District projects a declining enrollment trend of approximately 19 students per year. We are anticipating the declining enrollment will be offset by the projected increase in our state SILO tax dollars per student.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Natalie Lange, Business Manager, Audubon Community School District, 800 Third Avenue, Audubon, Iowa, 50025.

## BASIC FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 6,083,055	67,372	6,150,427
Receivables:			
Property tax:			
Delinquent	27,682	0	27,682
Succeeding year	1,899,928	0	1,899,928
Income surtax	144,771	0	144,771
Accounts	73,676	0	73,676
Interfund	0	237	237
Due from other governments	134,126	0	134,126
Inventories	0	4,824	4,824
Capital assets, net of accumulated depreciation (Note 4)	3,594,421	54,655	3,649,076
<b>TOTAL ASSETS</b>	<b>11,957,659</b>	<b>127,088</b>	<b>12,084,747</b>
<b>LIABILITIES</b>			
Interfund payable	237	0	237
Accounts payable	270,700	140	270,840
Salaries and benefits payable	467,339	0	467,339
Interest payable	17,811	0	17,811
Deferred revenue:			
Succeeding year property tax	1,899,928	0	1,899,928
Other	0	1,679	1,679
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	4,786	0	4,786
General Obligation Bonds	170,000	0	170,000
Portion due after one year			
General Obligation Bonds	4,685,000	0	4,685,000
<b>TOTAL LIABILITIES</b>	<b>7,515,801</b>	<b>1,819</b>	<b>7,517,620</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,363,950	54,655	3,418,605
Restricted for:			
Early Intervention	25,190	0	25,190
Talented and gifted	148,554	0	148,554
Management levy	103,223	0	103,223
Physical plant and equipment levy	211,598	0	211,598
Other special revenue purposes	64,544	0	64,544
Unrestricted	524,799	70,614	595,413
<b>TOTAL NET ASSETS</b>	<b>\$ 4,441,858</b>	<b>125,269</b>	<b>4,567,127</b>

SEE NOTES TO FINANCIAL STATEMENTS.



AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,446,063	159,658	359,237	0	(1,927,168)	0
Special instruction	407,126	0	35,673	0	(371,453)	0
Other instruction	773,121	338,718	0	0	(434,403)	0
	3,626,310	498,376	394,910	0	(2,733,024)	0
Support services:						
Student services	191,200	0	0	0	(191,200)	0
Instructional staff services	196,324	0	0	0	(196,324)	0
Administration services	658,759	0	0	0	(658,759)	0
Operation and maintenance of plant services	464,464	0	0	0	(464,464)	0
Transportation services	242,080	0	0	0	(242,080)	0
	1,752,827	0	0	0	(1,752,827)	0
Other expenditures:						
Facilities acquisitions	0	0	0	25,000	25,000	0
Interest and fiscal charges	208,605	0	0	0	(208,605)	0
AEA flowthrough	188,080	0	188,080	0	0	0
Depreciation(unallocated)*	201,071	0	0	0	(201,071)	0
	597,756	0	188,080	25,000	(384,676)	0
Total governmental activities	5,976,893	498,376	582,990	25,000	(4,870,527)	0
Business-Type activities:						
Non-instructional programs:						
Nutrition services	282,088	183,207	108,745	0	0	9,864
Total business-type activities	282,088	183,207	108,745	0	0	9,864
Total	\$ 6,258,981	681,583	691,735	25,000	(4,870,527)	9,864
General Revenues:						
Local tax for:						
General purposes				\$ 1,892,770	0	1,892,770
Capital outlay				146,589	0	146,589
Local option sales and service tax				301,865	0	301,865
Unrestricted state grants				2,427,977	0	2,427,977
Unrestricted investment earnings				270,784	2,014	272,798
Other revenue				153,927	0	153,927
Total general revenues				5,193,912	2,014	5,195,926
Changes in net assets				323,385	11,878	335,263
Net assets beginning of year				4,118,473	113,391	4,231,864
Net assets end of year				\$ 4,441,858	125,269	4,567,127

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 953,360	4,725,614	404,081	6,083,055
Receivables:				
Property tax				
Delinquent	25,520	0	2,162	27,682
Succeeding year	1,723,091	0	176,837	1,899,928
Income surtax	144,771	0	0	144,771
Accounts	73,082	0	594	73,676
Due from other governments	1,185	132,941	0	134,126
<b>TOTAL ASSETS</b>	<b>\$ 2,921,009</b>	<b>4,858,555</b>	<b>583,674</b>	<b>8,363,238</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Interfund payable	\$ 237	0	0	237
Accounts payable	27,013	216,215	27,472	270,700
Salaries and benefits payable	467,339	0	0	467,339
Deferred revenue:				
Succeeding year property tax	1,723,091	0	176,837	1,899,928
Income surtax	144,771	0	0	144,771
Total liabilities	2,362,451	216,215	204,309	2,782,975
Fund balances:				
Reserved for:				
Talented and gifted	148,554	0	0	148,554
Early intervention	25,190	0	0	25,190
Unreserved:				
Undesignated:	384,814	4,642,340	379,365	5,406,519
Total fund balances	558,558	4,642,340	379,365	5,580,263
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,921,009</b>	<b>4,858,555</b>	<b>583,674</b>	<b>8,363,238</b>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 5,580,263
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,594,421
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	144,771
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(17,811)
Long-term liabilities, including compensated absences, and general obligation bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(4,859,786)
Net assets of governmental activites (page 13)	\$ <u>4,441,858</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax:				
Tuition	\$ 1,884,459	301,865	146,589	2,332,913
Other	159,658	0	0	159,658
State sources	176,905	222,322	247,998	647,225
Federal sources	2,839,576	0	112	2,839,688
Total revenues	171,279	0	25,000	196,279
	5,231,877	524,187	419,699	6,175,763
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,499,319	0	0	2,499,319
Special instruction	407,126	0	0	407,126
Other instruction	538,289	0	218,171	756,460
	3,444,734	0	218,171	3,662,905
Support services:				
Student support	186,747	0	0	186,747
Instructional staff services	203,637	0	0	203,637
Administration services	583,591	0	75,523	659,114
Operation and maintenance of plant services	462,280	0	2,500	464,780
Transportation services	164,608	0	0	164,608
	1,600,863	0	78,023	1,678,886
Other expenditures:				
Facilities acquisitions	0	858,964	202,537	1,061,501
Long term debt				
Principal	0	0	125,000	125,000
Interest	0	0	190,794	190,794
AEA flowthrough	188,080	0	0	188,080
	188,080	858,964	518,331	1,565,375
Total expenditures	5,233,677	858,964	814,525	6,907,166
Deficiency of revenues under expenditures	(1,800)	(334,777)	(394,826)	(731,403)
OTHER FINANCING SOURCES(USES):				
Issuance of bonds	0	4,980,000	0	4,980,000
Premium on sale of bonds	0	7,220	0	7,200
Compensation on loss of capital assets	0	0	108,984	108,984
Transfer in	0	0	315,794	315,794
Transfer out	0	(315,794)	0	(315,794)
TOTAL OTHER FINANCING SOURCE(USES)	0	4,671,426	424,778	5,096,184
Net change in fund balances	(1,800)	4,336,649	29,952	4,364,801
Fund balance beginning of year	560,358	305,691	349,413	1,215,462
Fund balance end of year	\$ 558,558	4,642,340	379,365	5,580,263

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 4,364,801

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Expenditures for capital assets	\$ 1,642,734	
Depreciation expense	<u>(820,761)</u>	821,973

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issues are as follows:

Issued	\$ (4,980,000)	
Repaid	<u>125,000</u>	(4,855,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due.

(17,811)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

8,311

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences		<u>1,111</u>
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Changes in net assets of governmental activities (page 14)	\$ 323,385	
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SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 67,372
Receivables:	
Interfund	237
Inventories	4,824
Capital assets, net of accumulated depreciation (Note 4)	54,655
TOTAL ASSETS	<u>127,088</u>
LIABILITIES	
Accounts payable	140
Deferred revenues:	
Other	1,679
TOTAL LIABILITIES	<u>1,819</u>
NET ASSETS	
Investment in capital assets	54,655
Unrestricted	70,614
TOTAL NET ASSETS	<u>\$ 125,269</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 183,207
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	95,227
Benefits	12,315
Supplies	164,781
Depreciation	9,765
TOTAL OPERATING EXPENSES	<u>282,088</u>
OPERATING LOSS	<u>(98,881)</u>
NON-OPERATING REVENUES:	
State sources	3,636
Federal sources	105,109
Interest income	2,014
TOTAL NON-OPERATING REVENUES	<u>110,759</u>
Change in net assets	11,878
Net assets beginning of year	<u>113,391</u>
Net assets end of year	<u><u>\$ 125,269</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 177,525
Cash received from miscellaneous sources	5,515
Cash payments to employees for services	(107,542)
Cash payments to suppliers for goods or services	(149,414)
Net cash used in operating activities	<u>(73,916)</u>
Cash flows from non-capital financing activities:	
State grants received	3,636
Federal grants received	88,908
Net cash provided by non-capital financing activities	<u>92,544</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(895)
Net cash used in capital and related financing activities	<u>(895)</u>
Cash flows from investing activities:	
Interest on investments	2,014
Net cash provided by investing activities	<u>2,014</u>
Net increase in cash and cash equivalents	19,747
Cash and cash equivalents at beginning of year	<u>47,625</u>
Cash and cash equivalents at end of year	<u>\$ 67,372</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (98,881)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,201
Depreciation	9,765
Increase in inventories	(974)
Increase in interfund receivables	(237)
Increase in accounts payable	140
Increase in deferred revenue	70
Net cash used in operating activities	<u>\$ (73,916)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 67,372</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$16,201.

SEE NOTES TO FINANCIAL STATEMENTS.



AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 173,052
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 173,052</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest and contributions	\$ 950
Change in net assets	950
Net assets beginning of year	<u>172,102</u>
Net assets end of year	<u>\$ 173,052</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Audubon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Audubon, Iowa, and the predominate agricultural territory in Audubon and Guthrie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Audubon Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Audubon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Audubon and Guthrie Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 400
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, the District did not exceed the amount budgeted for expenditures.

#### (2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase



agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Iowa Schools Joint Investment Trust	<u>\$ 5,033,918</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

### (3) Transfers

The detail of the transfer for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 315,794</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,200	0	0	3,200
Construction in progress	0	858,964	0	858,964
Total capital assets not being depreciated	<u>3,200</u>	<u>858,964</u>	<u>0</u>	<u>862,164</u>
Capital assets being depreciated:				
Buildings	7,270,317	276,429	234,633	7,312,113
Land improvements	858,193	40,484	113,160	785,517
Machinery and equipment	1,777,638	466,857	31,060	2,213,435
Total capital assets being depreciated	<u>9,906,148</u>	<u>783,770</u>	<u>378,853</u>	<u>10,311,065</u>
Less accumulated depreciation for:				
Buildings	5,749,037	141,221	234,633	5,655,625
Land improvements	406,978	59,850	113,160	353,668
Machinery and equipment	980,885	619,690	31,060	1,569,515
Total accumulated depreciation	<u>7,136,900</u>	<u>820,761</u>	<u>378,853</u>	<u>7,578,808</u>
Total capital assets being depreciated, net	<u>2,769,248</u>	<u>(36,991)</u>	<u>0</u>	<u>2,732,257</u>
Governmental activities capital assets, net	<u>\$ 2,772,448</u>	<u>821,973</u>	<u>0</u>	<u>3,594,421</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 226,187	895	0	227,082
Less accumulated depreciation	162,662	9,765	0	172,427
Business-type activities capital assets, net	<u>\$ 63,525</u>	<u>(8,870)</u>	<u>0</u>	<u>54,655</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 496,212

Other 24,413

Support services:

Instructional staff 4,453

Operation and maintenance of plant 1,745

Transportation 92,867

619,690

Unallocated depreciation

201,071

Total governmental activities depreciation expense

\$ 820,761

Business-type activities:

Food services \$ 9,765

Total business-type activities depreciation expense \$ 9,765

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 0	4,980,000	125,000	4,855,000	170,000
Compensated absences	5,897	4,786	5,897	4,786	4,786
Total	<u>\$ 5,897</u>	<u>4,984,786</u>	<u>130,897</u>	<u>4,859,786</u>	<u>174,786</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond issue July of 2005		
		Principal	Interest	Total
2007	4.50 %	\$ 170,000	213,728	383,728
2008	4.50	175,000	206,078	381,078
2009	4.50	185,000	198,202	383,202
2010	4.50	195,000	189,878	384,878
2011	4.50	200,000	181,102	381,102
2012	4.50	210,000	172,102	382,102
2013	4.50	220,000	162,652	382,652
2014	4.00	230,000	152,752	382,752
2015	4.00	240,000	143,552	383,552
2016	4.20	250,000	133,952	383,952
2017	4.25	260,000	123,452	383,452
2018	4.30	270,000	112,402	382,402
2019	4.35	280,000	100,792	380,792
2020	4.40	295,000	88,612	383,612
2021	4.40	305,000	75,632	380,632
2022	4.45	320,000	62,212	382,212
2023	4.50	335,000	47,972	382,972
2024	4.55	350,000	32,898	382,898
2025	4.65	365,000	16,972	381,972
		<u>\$ 4,855,000</u>	<u>2,414,942</u>	<u>7,269,942</u>

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$190,448, \$190,103, and \$187,780 respectively, equal to the required contributions for each year.

**(7) Risk Management**

Audubon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$188,080 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual
	Fund Types	Fund Type		Original	Final	Variance -
	Actual	Actual	Actual			Positive (Negative)
Revenues:						
Local sources	\$ 3,139,796	185,221	3,325,017	3,150,759	3,150,759	174,258
State sources	2,839,688	3,636	2,843,324	2,947,868	2,947,868	(104,544)
Federal sources	196,279	105,109	301,388	359,000	359,000	(57,612)
Total revenues:	6,175,763	293,966	6,469,729	6,457,627	6,457,627	12,102
Expenditures:						
Instruction	3,662,905	0	3,662,905	4,563,463	4,563,463	900,558
Support services	1,678,886	0	1,678,886	1,877,850	1,877,850	198,964
Non-instructional programs	0	282,088	282,088	386,054	386,054	103,966
Other expenditures	1,565,375	0	1,565,375	2,451,315	2,451,315	885,940
Total expenditures:	6,907,166	282,088	7,189,254	9,278,682	9,278,682	2,089,428
Excess(deficiency) of revenues over(under) expenditures	(731,403)	11,878	(719,525)	(2,821,055)	(2,821,055)	2,101,530
Other financing sources, net	5,096,204	0	5,096,204	0	0	5,096,204
Excess(deficiency) of revenues and other financing sources over(under) expenditures	4,364,801	11,878	4,376,679	(2,821,055)	(2,821,055)	7,197,734
Balance beginning of year	1,215,462	113,391	1,328,853	6,573,165	6,573,165	(5,244,312)
Balance end of year	\$ 5,580,263	125,269	5,705,532	3,752,110	3,752,110	1,953,422

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds
ASSETS					
Cash and pooled investments	\$ 103,223	55,243	209,436	36,179	404,081
Receivables:					
Property tax:					
Current year delinquent	0	0	2,162	0	2,162
Succeeding year	25,000	0	151,837	0	176,837
Accounts	0	594	0	0	594
TOTAL ASSETS	\$ 128,223	55,837	363,435	36,179	583,674
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	6,133	0	21,339	27,472
Deferred revenue:					
Succeeding year property tax	25,000	0	151,837	0	176,837
TOTAL LIABILITIES	25,000	6,133	151,837	21,339	204,309
Fund equity:					
Fund balances:					
Unreserved, undesignated	103,223	49,704	211,598	14,840	379,365
TOTAL LIABILITIES AND FUND EQUITY	\$ 128,223	55,837	363,435	36,179	583,674

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



AUDUBON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Physical Plant and Equipment Expendable				Debt Service	Other Nonmajor Governmental Funds
	Management	Student Activity	Levy	Trust		
REVENUES:						
Local sources:						
Local tax	\$ 0	0	146,589	0	0	146,589
Other	8,129	185,941	32,380	21,548	0	247,998
State sources	0	0	112	0	0	112
Federal sources	0	0	25,000	0	0	25,000
TOTAL REVENUES	8,129	185,941	204,081	21,548	0	419,699
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	194,608	0	23,563	0	218,171
Support services:						
Administration services	75,523	0	0	0	0	75,523
Operation and maintenance of plant services	2,500	0	0	0	0	2,500
Facilities Acquisition	0	0	202,537	0	0	202,537
Long term debt:						
Principle	0	0	0	0	125,000	125,000
Interest	0	0	0	0	190,794	190,794
TOTAL EXPENDITURES	78,023	194,608	202,537	23,563	315,794	814,525
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(69,894)	(8,667)	1,544	(2,015)	(315,794)	(394,826)
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	315,794	315,794
Compensation for loss of capital assets	0	0	108,984	0	0	108,984
TOTAL OTHER FINANCING SOURCES	0	0	108,984	0	315,794	424,778
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(69,894)	(8,667)	110,528	(2,015)	0	29,952
FUND BALANCE BEGINNING OF YEAR	173,117	58,371	101,070	16,855	0	349,413
FUND BALANCE END OF YEAR	\$ 103,223	49,704	211,598	14,840	0	379,365

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 1,208	165	1,302	71
Speech and Drama	6,447	3,293	3,795	5,945
Journalism	5	0	0	5
Music Resale	0	104	0	104
Vocal Music	0	246	0	246
Band	98	1,837	1,903	32
Baseball	0	0	30	(30)
Softball	0	0	46	(46)
Girls Track	0	9	0	9
Girls Tennis	0	0	1,822	(1,822)
Industrial Tech	264	7,097	7,331	30
Vo Ag Resale	262	0	0	262
Greenhouse	0	3,395	3,174	221
Box Tops	1,302	1,284	928	1,658
High School	3,638	39,682	41,150	2,170
Elementary	1,141	2,239	2,872	508
Middle School	141	7,108	6,176	1,073
MS Special Ed	311	150	306	155
HS Special Ed	0	150	0	150
Middle School Music	24	1,170	973	221
Elementary Music	0	50	24	26
Annual	8,601	10,626	11,870	7,357
Concessions	(1,134)	19,232	17,932	166
Show and Jazz Choir	2,294	7,792	6,200	3,886
Home Ec	545	1,109	821	833
Class of 2008	(18)	0	(18)	0
Class of 2005	1,222	0	1,222	0
Class of 2006	2,965	687	3,652	0
Class of 2007	(22)	15,193	12,387	2,784
AFS Club	337	90	130	297
Art Club	286	0	0	286
FHA	557	50	75	532
FFA	23,282	26,858	30,135	20,005
National Honor Society	(1)	1,505	662	842
Peer Helpers	13	0	0	13
Pep Club	63	10,943	10,036	970
Drill Team	555	3,597	5,085	(933)
Student Senate	3,328	20,032	22,567	793
JH Student Senate	657	248	20	885
Total	\$ 58,371	185,941	194,608	49,704

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,332,913	2,284,320	1,966,025	1,837,182
Tuition	159,658	167,763	177,860	221,825
Other	647,225	349,229	319,657	322,605
State sources	2,839,688	2,913,855	2,662,840	2,646,224
Federal sources	196,279	244,165	176,032	180,468
Total	\$ 6,175,763	5,959,332	5,302,414	5,208,304
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,499,319	2,246,222	2,274,590	2,168,459
Special instruction	407,126	344,316	530,756	502,645
Other instruction	756,460	704,122	591,971	565,897
Support services:				
Student services	186,747	186,202	133,657	197,527
Instructional staff services	203,637	226,682	208,977	217,172
Administration services	659,114	651,970	569,298	586,851
Operation and maintenance of plant services	464,780	492,329	496,297	440,957
Transportation services	164,608	193,742	220,793	194,236
Central support services	0	2,237	1,490	1,800
Non-instructional programs	0	0	3,923	5,525
Other expenditures:				
Facilities acquisitions	1,061,501	347,370	134,213	272,397
AEA flow-through	188,080	188,181	191,517	204,656
Long term debt				
Principal	125,000	0	0	0
Interest	190,794	0	0	0
Total	\$ 6,907,166	5,583,373	5,357,482	5,358,122

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Audubon Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

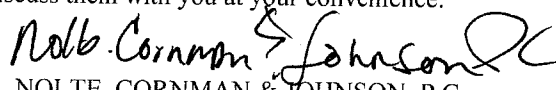
As part of obtaining reasonable assurance about whether Audubon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Audubon Community School District and other parties to whom Audubon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Audubon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 27, 2006

AUDUBON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-06 Student Activity Fund - During our audit, we noted the Student Activity Fund included an interest account and it appeared the interest was not allocated at least once during the year.

Recommendation - The interest accumulated in the Student Activity Fund should be allocated at least once during the fiscal year to the various accounts with in the Activity Fund.

Response - We have allocated the interest in the Student Activity Fund to the various accounts in the Activity Fund.

Conclusion - Response accepted.

AUDUBON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Deficit Balances - We noted during our audit that four student activity accounts had deficit balances at June 30, 2006.

Recommendation - The District should continue to investigate alternatives to eliminate deficits in order to return these accounts to a sound financial condition.

Response - We will watch these accounts more closely in the future.

Conclusion - Response accepted.